

**COMMUNITY MENTAL HEALTH CENTER
OF CRAWFORD COUNTY**

Independent Auditor's Report
and Financial Statements

December 31, 2014

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY

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MANAGEMENT DISCUSSION AND ANALYSIS
(Over a decade of continued struggle with KS reg. & funding)

Richard H. Pfeiffer, Executive Administrator

July 21, 2014

This section of Community Mental Health Center of Crawford County Annual Financial Report presents our discussion and analysis of the Mental Health Center's financial performance during the fiscal year ending December 31, 2014.

Our Community Mental Health Center (CMHCCC) in Kansas provides home and community-based, as well as outpatient mental health services on a 24-hours a day, seven days a week basis. We provide full range of residential substances abuse services and therapeutic preschool and lease facilities for infant center services.

This CMHCCC is the local Mental Health Authority coordinating the delivery of publicly funded community-based mental health services. Our CMHC system is state and county funded and locally administered. Service delivery decisions are made at the community level, closest to the residents that require mental health treatment. We employ 162 staff and professionals. **We provide services to Kansans of all ages with a diverse range of presenting problems. As part of licensing regulations, our CMHCCC is required to provide services to all Kansans needing them, regardless of their ability to pay.** This makes the community mental health system the "safety net" for Crawford County for persons with mental health needs.

FINANCIAL HIGHLIGHTS

CMHCCC reported a net loss of (\$334,700.84) in FY14 and a net loss of (\$87,097.97) in FY13.

Revenues

Revenues decreased 6.93% percent in FY 2014, to \$6,522,970 and revenues decreased 7.5% percent in FY 2013. During the FY14 audited year the largest revenue decrease was in Medicare payments and the loss of the Public Health Emergency Fund, in the amount of \$117,224.

Historical revenue cuts within the last decade, as late as 2012, continue to create hardships as they have not been replaced or supplemented. One of the largest revenue decreases in recent years came from Medicaid billed to Managed Care Organizations (MCO), and those revenues while they don't show a decrease currently, they have yet to increase to levels occurring before the Kansas Governor's Executive Order. This order mandated the reorganization of Medicaid Services regardless of the MCOs lack of knowledge of Mental Health Community Based Care in Kansas. The Governors Executive Order has destroyed the Community Based MH System.

Highlights of funding reductions sustained by the Statewide CMHC system 2008-2011

1. \$20 million reduction in **Mental Health Reform** grants since FY 2008 – a 65 percent reduction.
2. \$9.6 million all funds in **Medicaid rate reductions** during FY 2010 as a result of the 10% rate reduction. Restored in FY 2011.
3. \$3.1 million in **MediKan** funding in FY 2010 – a 45 percent reduction. Elimination of MediKan General Assistance in FY 2012.
4. \$560,000 SGF in **Community Support Medication Program** funding during FY 2010 – a 53 percent reduction.
5. \$7.4 million in cost controls (savings) in the **Medicaid Mental Health** managed care contract for FY 2011.

Mental Health Reform Funding

Another large decrease felt by the agency is the Mental Health Reform Services decreasing over 26% in FY 2010. This continual lack of funding by the state stresses the safety net of services for Emergency State Hospital Screens and impact the services for those who are in the community due to lack of State Hospital psychiatric beds. State Mental Health Reform dollars are used by our agency to fund our Emergency Screening. In 2011, the State refused to pay for Mental Health Reform Screenings on private pay cases as required by Kansas Law and our contract with the State. There is a continued trend by the State to require service by regulation and then to drop funding. Which is demonstrated by the fact that the state has reduced the number of state mental health beds at Osawatomie State Hospital by 60 beds to comply with a federal mandate by the Center for Medicaid and Medicare Services (CMS) to replace ceilings that pose a danger, but they offered no replacement or alternative for the 60 beds during the process.

Mental Health Reform Funding By FY	Amount	Impact	Cumulative Impact	% Difference	Cumulative Difference
FY07	\$31,066,330				
FY08	\$21,874,340	-\$9,191,990	-\$9,191,990	-29.59%	-29.59%
FY09 (Base)	\$21,874,340	-	-\$9,191,990	-	-29.59%
FY09 (Revised - Governor's 3% cut to SRS)	\$20,074,340	-\$1,800,000	-\$10,991,990	-8.23%	-35.38%
FY10 Budget Bill	\$17,374,340	-\$4,500,000	-\$13,691,990	-20.57%	-44.07%
FY10 Omnibus Bill	\$14,874,340	-\$2,500,000	-\$16,191,990	-14.39%	-52.12%
FY10 Governor's Allotments	\$10,874,340	-\$4,000,000	-\$20,191,990	-26.89%	-65.00%
FY11	\$10,874,340	-	-\$20,191,990	-	-65.00%

Mental Health Reform funding helped our system close state hospital beds and helps support services that are essential in keeping individuals out of inpatient settings. Reducing these funds puts at risk an already overstretched state hospital capacity. Without Mental Health Reform funding, there would be no universal system; no safety net; no 24 hour emergency care; with increasing demands for mental health care in emergency rooms and in-patient setting; and a growing number of Mentally Ill citizens in Crawford County jail. The continued removal of funds by the Governor has created a crisis in emergency service funding which is being verified by increased State Hospital Admissions and poor discharge planning by State Hospital Staff as demonstrated by the documented death of a consumer in Kiowa County and another documented death in July 2015 in Labette County.

A moratorium on admissions to Osawatomie State Hospital pursuant to KSA 59-2968 was established June 21, 2015 suspending direct admissions of voluntary and involuntary admissions to the hospital until further notice. Admissions will now be arranged according to a wait list as described only when the hospital's census drops below 146 patients. CMHCs do their best to provide quality treatment in their respective communities to patients suffering from mental illness; however some persons require a level of care that can only be provided in an inpatient facility. It is the responsibility of the State of Kansas to provide inpatient mental health programs. A widely recognized national standard has been that for every 100,000 persons in a state's population, 50 mental health hospital beds should be available. This moratorium will put Kansas, which has approximately half the beds we should have at the aforementioned standard, even lower than we already are.

OSH Census by CMHC	Number of Patients	Total CMHC Adult Census	Rate Per 10,000 Population
Bert Nash	9	92,573	97.22%
ComCare	38	370,908	102.45%
Crawford County*	2	30,592	65.38%
Elizabeth Layton	5	43,628	114.61%
Four County	4	65,560	61.01%
Johnson County MHC	12	421,619	28.46%
Kanza MH	1	31,096	32.16%
Labette Center	0	16,052	0.00%
East Central	6	61,585	97.43%
Out of State	2		
Pawnee Mental Health	11	142,871	76.99%
South Central	1	48,664	20.55%
Southeast Kansas MHC	5	49,284	101.45%
Spring River	0	15,833	0.00%
The Guidance Center	7	86,343	81.07%
Valeo Behavioral Health	15	135,081	111.04%
Wyandot MHC	28	114,989	243.50%

*As of 7/22/15, both patients included in the OSH Census were admitted due to criminal court orders and our agency has been advised by OSH that we have no responsibility or authority for admission or discharge of these individuals.

CMHCs have been partners with the State of Kansas for 50 years and work to treat all Kansas with varying degrees of mental illness. The partnership with the State has never been more critical to the communities across the state, than it is now. As the grants to CMHCs have declined over the last decade, little, if any, investment has been made to increase capacity and infrastructure for them as the number of state mental hospital beds has diminished. The result is additional stress on them and their community partners.

Inpatient treatment resources have continually declined over the last 15 years and the trend is unsustainable. Intermediate and transitional programs have been put in place by the Kansas Department for Aging and Disabilities (KDADS), but they are simply supplemental programs and not alternatives to conventional inpatient treatment.

The community mental health system can sustain no additional reductions of funding or resources and additional resources must be committed to community based treatments and services and that the state identify and fund inpatient beds at alternative hospitals to ensure adequate safety nets exist.

Additional Revenue Reductions

The State of Kansas significantly decreased funding in the Certified Match program and the State Grant Funds from FY06 through FY09, all without prior notice. Further, the State of Kansas did not provide notice when the Medicaid system was overhauled and reimbursement rates were reduced by 10%, costing over \$200,000 in FY10 alone. These reductions continue to provide loss of revenue, totaling over \$455,000 in FY14. The MHC Governing Board has asked for the retention of revenue for the last decade to manage these continued funding reductions and mismanagement by the State and current Governor. Due to the unannounced reduction in revenues, plans for the agency to expand by building a 3,000 square foot building were cancelled, leaving the agency with the need for greater space but lacking the revenue to accomplish the task because of funding cuts. To further complicate office space matters, a building owned by the County has been demolished. The Executive and Mental Health Governing Board have determined at least 3 million needs to be set aside to assure a funding base to remodel or new construction, of 30,000 square feet of building space.

Our current need for a precautionary operating reserve continues to be reality. The State and MHC Governing Board have defined this as a minimum of three months operating expense and a 3 million dollar building fund. Further contingent liabilities are that the MHC Agency participates in several federal and state grant programs. Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the MHC Agency expects such amounts, if any, to be immaterial.

These funding precautions have continued over the last eight State of Kansas FY05 through FY12; further cuts have not happened since FY12. However, at the same time no growth or additional funding has been given to the replace or supplement the funding shortfalls either. This MHC agency has had a difficult time with funding stability. The first fiscal crisis happened on July 28, 2006, when a spread sheet from the State of Kansas and the Association of Community MHC's notified us that we would receive one million dollars less in funding from our Certified Match effective July 1, 2006.

Expenditures

Expenditures decreased in FY14 by 3.0% to \$6,885,242. Of which, salaries and benefits decreased by 4.8% and operating expenses increased by 2.6%.

The Mental Health Center Personnel Department in July of 2006 laid off or transferred an estimated 3/4 million dollars in staff expense. These reductions allowed the agency to function after the million dollar reduction in State Certified Match. Additional reductions in the State Fiscal year 2008 of SGF MH reform dollars totaled an estimated \$180,000 dollars. Our agency took on extra work without replacing key staff members, such as the Mental Health Director in 2006, the Alcohol & Drug Director in 2011, and numerous nurses and pre-school teachers.

Reductions in staff have continued through FY 2014 to allow the agency to maintain operations. The agency is now at the risk of cutting services if further staffing cuts are necessary.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements.

Community Mental Health Center of Crawford County (CMHCCC) is a component unit of the primary government of Crawford County, Kansas (County) and as such is considered to be a governmental organization. CMHCCC provides services in the mental health field and drug and alcohol counseling, and also provides emergency response and gate keeping for the State Hospital Psychiatric Inpatient Beds. The Agency's government-wide financial statements provide both long-term and short-term information about the Center's overall financial status.

Government-Wide Statement

The government-wide statement reports information about the Center as a whole, using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the government assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The Net Assets are the difference between the Center's assets and liabilities and are one way to measure the Center's financial health or position.

The Governing Board of the quasi-government Mental Health Center requires a minimum of three (3) months Operating Expense held in reserve with contingency to meet payroll, warrants, and lease expense obligations.

Cost Center Financial Statements

The cost center Financial Statements provide detail information about the Center's cost per program breakdowns. Cost centers are accounting devices that the Center uses to keep track of specific sources of funding and spending for particular purposes.

- Some cost centers are required by State regulations to keep track of grants or funding through SRS.
- The Governing Board annually establishes cost centers to control and manage money for particular purposes and/or to show that a particular cost center is properly using designated taxes and grants for their selected roles.

OPERATIONS AND SUMMARY OF POLICIES: DISCUSSION AND ANALYSIS

Revenue Recognition

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, shared revenues, and donations. Revenues from grants, entitlements, shared revenues and donations are recognized when all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year the resources are required to be used, or the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the Center on a reimbursement basis.

Compensated Absences

CMHCCC's policy permits most employees to accumulate vacation benefits, up to twenty-four days, that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits, which are earned whether the employee is expected to realize the benefits as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments. These compensation related payments can include Social Security and Medicare taxes at a rate computed at the effective date.

Risk Management

CMHCCC is exposed to various risks of loss from torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions; natural disasters; employee injuries and illnesses; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage rate in any of the three preceding years.

Income Taxes

As an essential government function of Crawford County, Kansas, The Center is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

COUNTY & STATE SERVICES FY14

- The County maintains a commitment to former clients of State hospitals that have moved from institutional care to community-based services.
- The Community Mental Health Center of Crawford County has played a critical role in accomplishing significant bed reductions in our State mental health hospitals, which state wide, have declined from 1,003 in FY 90 to 340 today. While bed days have decreased, our inpatient system is nearing capacity due to an increase in admissions. The closure of (local) Mt. Carmel inpatient psychiatric beds has stressed local resources. The FY10 year closure of Coffeyville psychiatric beds further strained resources, as well as the FY15 moratorium suspending direct admissions to Osawatomie State Hospital.
- Our local community-based services have proven effective in diverting thousands of individuals from State hospitalization. We provide for children, intensive wraparound services to allow them to stay at home and achieve higher performance in school. For adults, it means living independently and becoming competitively employed.
- The Community Mental Health Center of Crawford County is the public safety net for adults and children with mental illnesses. The number of SPMI adults served state-wide by CMHCs has grown from 7,775 in FY92, to over 18,000 today. The number of children/adolescents with SED served by CMHCs state-wide has grown from 6,034 in FY92, to over 27,000 today.
- The Community Mental Health Center of Crawford County provides services in every city in the county, 24 hours a day, seven days a week. This is a funding issue that affects every person in the county.
- Without the Community Mental Health Center of Crawford County services, law enforcement, local emergency rooms, schools and families will be adversely affected. The failure to keep CMHC programs fully funded increases the census in state hospitals, impacts foster care and nursing homes, to say nothing of correctional facilities and juvenile detention facilities.
- The Community Mental Health Center of Crawford County has a State mandate to serve regardless of an ability to pay. State-wide over 100,000 Kansans walk through the doors of a CMHC each year – over 70,000 are the working poor and their children.
- Because of current events in our everyday lives and around the world, there are an increasing number of individuals with severe illnesses coming to the CMHCs. Without adequate funding, neither the necessary amount of services nor array of services may be available at the time of need.
- The Community Mental Health Center of Crawford County has met or exceeded every target and objective set in reducing the use of state hospital beds. The CMHCs have simultaneously succeeded in providing quality community care for virtually thousands of seriously disabled former state hospital patients. The outcomes are impressive state-wide.
- Now in FY14 with the advent of MCOs from out of State the service plan is to continue the decade long decrease in funding to Mental Health Centers Statewide. Centers are required to

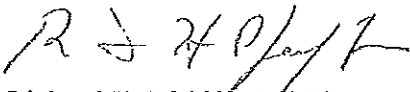
do the screening service by KS statute, yet not paid for them. This can only lead to a crisis in emergency services after hours.

MCOS PROVIDER OUTCOMES REPORT FINDINGS

- Now in FY14 with the advent of MCOs from out of State the service plan is to continue the decade long decrease in funding to Mental Health Centers Statewide. Centers are required to do the screening service by KS statute, yet not paid for them. This can only lead to a crisis in emergency services after hours.
- Outpatient appointment access performance exceeded that of the peer CMHC mean.
- Screening access performance was similar to the peer group mean.
- Performance on adult AIMS outcomes measures was exemplary.
- Performance on youth AIMS outcomes measures was generally comparable to the CMHC peer group means.
- The overall rate of hospitalization was slightly lower than the peer CMHC mean.
- Penetration rates were generally comparable to the peer CMHC means.
- The Community Mental Health Center of Crawford County performed comparably to the peer mean, with regard to the likelihood that Members received a mental health service in the 30 days prior to being screened for hospital admission.
- Timeliness of follow-up after a hospital diversion showed a trend for superiority relative to the peer CMHC means.

CONTACTING THE MENTAL HEALTH CENTER FISCAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Community Mental Health Center's finances and to demonstrate the Center's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Center's Executive Administration at (620) 235-7111.



Richard H. Pfeiffer, MSW
Executive Administrator



Heather Spaur, MBA
Director of Personnel

Diehl Banwart Bolton

Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Mental Health Center of Crawford County
Pittsburg, Kansas

We have audited the accompanying statement of net position of the Community Mental Health Center of Crawford County (a component unit of Crawford County), as of December 31, 2014, and the related statement of revenues, expenses and changes in net position and statement of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

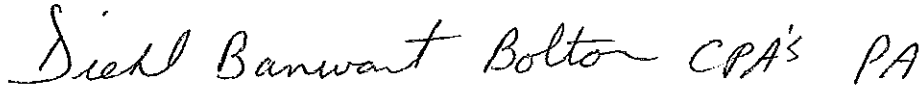
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Mental Health Center of Crawford County as of December 31, 2014, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages i through vii be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Diehl Banwart Bolton CPA's PA".

DIEHL, BANWART, BOLTON, CPAs PA

August 18, 2015
Fort Scott, Kansas

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY
Statement of Net Position
December 31, 2014

ASSETS

Current Assets

Cash	\$1,314,409.91
Certificate of deposit	3,100,000.00
Accounts receivable, less allowance for doubtful accounts of \$ 219,393.32	309,430.09
Prepaid expenses and unearned revenues	<u>750.42</u>
Total Current Assets	<u>4,724,590.42</u>

Property and Equipment, at Cost

Land	44,700.00
Leasehold Improvements	1,359,790.44
Equipment and furniture	1,349,212.88
Vehicles	<u>1,208,686.40</u>
	3,962,389.72
Less accumulated depreciation	<u>2,825,298.99</u>
Total Property and Equipment	<u>1,137,090.73</u>

Total Assets	<u>\$5,861,681.15</u>
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LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$26,000.00
Accrued expenses	278,900.55
Deferred revenues - federal and state grants	<u>1,600.00</u>
Total Current Liabilities	<u>306,500.55</u>

Net Position

Invested in capital assets, net of related debt	1,137,090.73
Reserved for contingency	300,000.00
Unreserved	<u>4,118,089.87</u>
Total Net Position	<u>5,555,180.60</u>

Total Liabilities and Net Position	<u>\$5,861,681.15</u>
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See notes to financial statements

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY
Statement of Revenues, Expenses and Changes in
Net Position - Budget and Actual
For the Year Ended December 31, 2014

	Budget	Actual	Actual Over (Under) Budget
Operating Revenues			
Net contract fees	\$5,358,900.00	\$4,951,389.92	\$(407,510.08)
Net client fees	457,400.00	446,108.36	(11,291.64)
Federal and state grants	544,239.00	530,717.79	(13,521.21)
County and city funding	604,300.00	619,249.43	14,949.43
Other	3,000.00	58,190.13	55,190.13
Total operating revenues	<u>6,967,839.00</u>	<u>6,605,655.63</u>	<u>(362,183.37)</u>
Operating Expenses			
Personnel	5,086,830.40	5,140,415.21	53,584.81
Professional services	26,050.00	19,975.00	(6,075.00)
Property Services	789,684.00	750,301.39	(39,382.61)
Communications	95,550.00	106,672.68	11,122.68
Supplies	393,400.00	368,847.38	(24,552.62)
Rent	12,000.00	11,700.00	(300.00)
Travel	56,300.00	56,905.02	605.02
Professional and educational meetings	21,500.00	9,181.61	(12,318.39)
Juvenile justice authority	100,000.00	89,127.84	(10,872.16)
Health department	-	27,872.20	27,872.20
Wraparound services	20,000.00	7,700.35	(12,299.65)
Bad debts	62,500.00	68,162.13	5,662.13
Detention	170,000.00	190,527.13	20,527.13
Miscellaneous	152,200.00	105,573.65	(46,626.35)
Total operating expenses	<u>6,986,014.40</u>	<u>6,952,961.59</u>	<u>(33,052.81)</u>
Operating Income	<u>(18,175.40)</u>	<u>(347,305.96)</u>	<u>(329,130.56)</u>
Investment Income	<u>40,000.00</u>	<u>12,605.12</u>	<u>(27,394.88)</u>
Excess of Revenues over Expenses	<u>\$21,824.60</u>	<u>(334,700.84)</u>	<u>\$(356,525.44)</u>
Net Position, January 1, 2014		<u>5,889,881.44</u>	
Net Position, December 31, 2014		<u>\$5,555,180.60</u>	

See notes to financial statements

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY
Statement of Cash Flows
For the Year Ended December 31, 2014

	<u>2014</u>
Cash Flows From Operating Activities	
Cash received from contracts and grants	\$6,563,164.21
Other cash receipts	58,190.13
Cash paid to employees	(5,143,364.25)
Cash paid for other goods and services	<u>(1,573,269.62)</u>
Net Cash Provided (Used) by Operating Activities	<u>(95,279.53)</u>
Cash Flows From Noncapital Financing Activities	
Cash Flows from Capital and Related Financing Activities	
Proceeds from sale of vehicles	9,735.00
Purchases of propety and equipment	<u>(201,512.72)</u>
Net Cash Provided (Used) by Capital Financing Activites	<u>(191,777.72)</u>
Cash Flows From Investing Activities	
Interest revenue collected	<u>12,605.12</u>
Net Cash Provided (Used) by Investing Activities	<u>12,605.12</u>
NET INCREASE (DECREASE) IN CASH	(274,452.13)
CASH AT BEGINNING OF YEAR	<u>1,588,862.04</u>
CASH AT END OF YEAR	<u>\$1,314,409.91</u>

See notes to finicial statements

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY

Notes to the Financial Statements
For the Year Ended December 31, 2014

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Community Mental Health Center of Crawford County (CMHCCC) is a component unit of the primary government of Crawford County, Kansas (County) and as such is considered to be a governmental organization. CMHCCC provides services in the mental health field and drug and alcohol counseling.

Proprietary Fund Accounting

The Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Center has elected to apply only Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, that do not conflict with or contradict a GASB pronouncement.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable at December 31, 2014, consisted of Medicaid and Medicare reimbursements, insurance claims, governmental units and client private pays. Unsecured credit is extended to clients.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, CMHCCC considers time deposits with an original maturity of less than three months to be cash.

Revenue Recognition

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, shared revenues and donations. Revenues from grants, entitlements, shared revenues and donations are recognized when all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year the resources are required to be used or the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the Center on a reimbursement basis.

Compensated Absences

CMHCCC's policy permits most employees to accumulate vacation benefits, up to twenty-four days, that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefits as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

CMHCCC is exposed to various risks of loss from torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions; natural disasters; employee injuries and illnesses; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Income Taxes

As an essential government function of Crawford County, Kansas, the Center is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

2. **BUDGETARY INFORMATION**

Kansas statutes require that an annual operating budget be legally adopted. The legal annual operation budget is prepared using the accrual basis of accounting.

The statutes permit transferring budgeted amounts between line items. However, such statutes prohibit expenses in excess of the total amount of the adopted budget of expenses. A budget comparison statement is presented showing actual revenues and expenses compared to legally budgeted revenues and expenses.

3. CASH INVESTMENTS AND DEPOSITS WITH FINANCIAL INSTITUTIONS

K.S.A. 9-1401 establishes the depositories which may be used by CMHCCC. The statute requires banks eligible to hold CMHCCC's funds have a main or branch bank in the county in which the CMHCCC is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The CMHCCC has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the CMHCCC's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The CMHCCC has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the CMHCCC may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the CMHCCC's deposits may not be returned to it. State statutes require the CMHCCC's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. At December 31, 2014, all deposits were adequately secured.

At December 31, 2014 the CMHCCC's carrying amount of deposits was \$4,414,409.91 and the bank balance was \$4,446,943.29. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$252,488.50 was covered by federal depository insurance, \$4,394,404.79 was collateralized by securities with a market value of \$5,071,988.76 held by the pledging financial institutions' agents in the CMHCCC's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the CMHCCC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. CMHCCC was in compliance with those statutes.

4. OPERATING LEASES

Rent expense for the year ended December 31, 2014, was \$11,700.00.

5. **RETAINED EARNINGS RESERVES**

Reserved for Contingency

The Board of Directors has established a \$300,000 contingency reserve for which funds are to be set aside rather than used for ordinary day to day operations.

6. **PENSION PLAN**

Plan Description

CMHCCC participated in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by Kansas law. Pension expense is recorded for the amount CMHCCC is contractually required to contribute for the year. The plan provides retirement, withdrawal and disability benefits and death benefits to plan members and their beneficiaries. State law assigns the authority to establish and amend benefit provisions to the plan's board of trustees which is appointed by the Governor with the approval of the State Legislature. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803 or by calling 1-888-275-5737.

Funding Policy

The authority to establish and amend obligations of plan members and CHMCCC is set forth in state law and is vested in the plan's board of trustees. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether an employee is Tier 1 or Tier 2. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law established the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and 6% of covered salary for Tier 2 members. CMHCCC is required to contribute at an actuarially determined rate; for 2014 the rate was 9.69% annual covered payroll. CMHCCC's contributions to the plan for 2014, 2013, and 2012, were \$346,957, \$312,367, and \$296,637, respectively, which equaled the required contributions for each year.

Net Pension Liability

The total pension liability for KPERS was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. As of June 30, 2014 the net pension liability for KPERS was \$8,291,794,940. KPERS has not determined the City's proportionate share of the net pension liability as of June 30, 2014. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kpers.org or can be obtained as described in the first paragraph above.

Tax Sheltered Annuity

In addition to KPERS, CMHCCC allows employees to make voluntary contributions to tax sheltered annuities. CMHCCC matches contributions for employees that are eligible to retire under KPERS but are still working. For 2014 the amount of the matching contribution was \$74,880.

7. **PROPERTY AND EQUIPMENT**

The following is a summary of changes in property and equipment for the year ended December 31, 2014:

	Balance January 1, 2014	Additions	Retirements	Balance December 31, 2014
Land	\$ 44,700.00	\$ -	\$ -	\$ 44,700.00
Leasehold improvements	1,269,433.42	90,357.02	-	1,359,790.44
Equipment and furniture	1,342,536.18	6,676.70	-	1,349,212.88
Vehicles	<u>1,154,137.40</u>	<u>104,479.00</u>	<u>49,930.00</u>	<u>1,208,686.40</u>
	<u>\$ 3,810,807.00</u>	<u>\$ 201,512.72</u>	<u>\$ 49,930.00</u>	<u>\$ 3,962,389.72</u>

8. **SUBSEQUENT EVENT**

Management has evaluated events and transactions occurring subsequent to December 31, 2014 through August 18, 2015, the date the financial statement was available to be issued. During this period, there were no subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement.

10. **FEDERAL AND STATE GRANTS**

Federal and State grants shown as revenue on the Statement of Revenues, Expenditures and Changes in Net Assets are comprised of the following

State Aid	\$ 131,421.50
State Grant	58,769.36
Family Center System of Care	130,638.00
Family Mental Health Block Grant	176,628.50
Child Nutrition Grant	<u>33,260.35</u>
	<u>\$ 530,717.79</u>